

Deal Status Report Cabo San Lucas Land

Deal Info

Relationship Name: Kenneth Jowdy Companies	Debt MTS: WD91	Deal Type: Development
Deal Manager: Chad Demartino, Steve Fischler	Asset No: 001133601	Status: Performing
Underwriter: Al Picallo	REL No: NAP	Current Prop. Type(s): Land and Lots
Asset Manager: Deborah Spencer	Equity MTS: NAP	Future Prop. Type(s): Land
Financial Analyst: Sweta Bhattacharya		
Total Square Measure: 1,510 Acres		

Current Status

NOTE: The project is being put in moribonds, pending resolution of funding. Staff has been cut and construction has been suspended. In the near future, only golf maintenance operations will be performed. Borrower reports golf course is at risk of loss if desal shut down (no water) and maintenance curtailed due to lack of unfunding. Construction status (prior to LB Bankruptcy): The golf course is now in the grow in phase as all holes have been grassed and the work now involves miscellaneous construction such as bunker construction, cart path construction, edge trimming and fine tuning of irrigation systems. The practice facility has been shaped and is now ready for irrigation system installation. Vertical construction continues on two of the golf-course support buildings. The maintenance building has progressed to having 90% of the walls constructed, and 75% of the concrete slab on grade constructed. The first comfort station construction is underway, and the slab on grade has been cast and walls have been constructed to the upper window location. The irrigation support system continues in the fine-tuning mode, as emergency generators for the irrigation pumps and desalination plant have been installed. The 4th well is now up and running and maintenance is underway on the pump in one of the other wells. The main irrigation lake is now near the full level, and water is no longer being purchased from the City. The desal plant continues to operate efficiently and is producing up to 1.2MM gallons per day. The Golf Villas pad construction is complete and the lots have been certified. The underground wet utilities have now been installed within the in-tract roads and dry utility installation has begun with the installation of underground vaults. The borrower had been marketing certain parcels for sale consisting of the 65 acre hotel site, 190 acre un-entitled ocean front parcel, the village parcel currently entitled with 121 condo/casita units (possible change in use to hotel), and a 210 acre un-entitled parcel for future development located in the northeastern portion of the property. We understand that the borrower had a potential equity investor and approached Lehman about a \$40MM pay down for the total release of 2 large parcels combined with a substantial equity stake, but was contingent on a significant reduction in the note terms, according to the deal manager nothing came of this discussion. Court dismissed the Aldo Gomez Rubal file claim on 9/9/06 on technical grounds.

Capitalization (Balance as of 01/05/2009)

Lender / Participation	Lien Position	Principal Balance	Future Funding	Pay Rate	Accrual Rate	Deferred Interest	Accrued Interest At Exit	Exit Fees	Origination Date / Maturity	Extension Option / Exit Date
Lehman Brothers	1st	\$107,538,328	\$17,461,672	0.00%	15.00%	\$46,404,376	\$132,580,041	\$49,502,446	03/10/2006	2 x 12 mos
Total Debt		\$107,538,328	\$17,461,672						03/31/2009	01/31/2011
		Outstanding Commitment	Additional Commitment	Pref Return Rate	Accrued Pref Return	Ownership Pct				Exit Date
Client Equity		-	\$0	0.00%	\$0	0.00%				
Partner Equity		-	\$0	0.00%	\$0	0.00%				
Borrower Equity		\$8,416,523	\$0							
Total Equity		\$8,416,523	\$0							
Total Cap		\$115,953,851	\$17,461,672							

Capitalization Comment

The loan was originated by Lehman Brothers and has subsequently been pledged to Danske. Post LB bankruptcy, Danske has taken control of the asset and is involved in the day-to-day decision making. The original loan was funded for land acquisition, predevelopment cost, design/engineering, and infrastructure. Borrower equity commitment is \$20MM with \$8.4MM contributed at closing.

In order to pledge the loan to Danske, new loan guidelines were laid out. The current outstanding deferred interest will be substantially reduced and the \$126MM additional interest fee is to be eliminated. A portion of the loan is expected to be converted into a revolver. The revised loan will take effect as soon as legal documents are approved.

Sources and Uses

Anticipated Additional Funding

	Through Exit	Through Sell-Out
Hard Costs	\$19,195,695	\$19,195,695
Soft Costs	\$10,294,455	\$10,294,455
Carrying Costs	\$3,600,000	\$3,600,000
Total Funds Needed:	\$33,090,151	\$33,090,151

Sources & Uses Comments

The budget contemplates construction of the golf course and clubhouse, desalination plant, backbone infrastructure and site improvements for golf villas and village planning areas. The initial budget contained large contingency amounts which were reallocated to construction line items by the borrower. Most of the major budget categories (excluding interest carry) have been bid out, and there is approx. \$30MM in costs to complete, \$16MM to be funded by LB and \$12MM from Borrower. Major contracts for streets and site improvement components are in process. There are a few remaining major categories that have not been bid out (principally the golf clubhouse, site improvements for Sunset Hill lots, and Village vertical improvements. These budget line items are still based on estimates. Because a substantial portion of the site is held for future development, it is not possible to determine a meaningful cost per lot based on the current loan budget. Remaining carry costs consist of interest on loan which is deferred, and is payable from net proceeds or upon maturity.

Existing Sources of Funds

Reserve	\$0	\$0
Cash Flow	\$0	\$0
Unit / Lot Sales	\$0	\$0
Revolving Credit	\$0	\$0
Future Net Advances/Paydowns	\$17,461,672	\$17,461,672
Construction Deposits	\$0	\$0

Unsecured Funds Needed

3rd Party Debt	\$0	\$0
LB Debt	\$0	\$0
LB Equity	\$0	\$0
Partner Equity	\$0	\$0
Borrower Equity	\$12,028,479	\$12,028,479
Total Sources:	\$29,490,151	\$29,490,151

Sales

As Of	Units	% Of Units	Gross Price/Unit	Gross Price/SF
Unsold	1,510	100%	\$162,000	\$0
Under Contract	0	0%	\$0	\$0
Closed	0	0%	\$0	\$0
Total	1,510	100%	\$162,000	\$0

Performance Measure Comments:

The project will likely take 10 years or longer to fully build out. The subject loan is for 3 years and is for land acquisition, pre-development and Phase I infrastructure costs. The sales of the various product types in the development are outside the scope of the loan. Borrower has potential JV partner who is also interested in purchasing the 65 acre hotel site. **Greenwich Capital has been marketing the project for sale for the past 6 months and has a large interest list.** There has been some slowing in the number of large, luxury oriented homesites over the past 12 months, though pricing has not yet decreased according to our recent discussion with a local appraiser familiar with the resort development in the Cabo Area. These types of product, especially those with ocean views had been selling at prices ranging from \$3MM to \$9MM. In order to obtain reasonable absorption, prices will need to drop from prior levels. A market study by PWC was commissioned by Lehman in early 2007. While there have been intervening events in real estate and capital markets since the PWC report was issued which need to be considered, their draft report dated 4-07 indicated that Cabo's "resort residential and luxury lodging sectors are considered to be in a growth phase of the destination's evolution. The limited inventory and strong performance of Los Cabos luxury resorts indicate market depth, despite reported plans for properties at Puerto Los Cabos (San Jose del Cabo), Cabo Pacifica, Diamante and San Cristobal" (planned developments on the Pacific coast). Overall demand generators have expanded significantly over the past 5 years so historical absorption rates may not be relevant to future demand for luxury residential properties.

Under Construction Performance Measure

Construction Begin Date: 05/01/2008
Substantial Completion Date:

Percent Hard Costs Used: 83.78
Percent Budget Used: 77.79

Strengths & Risk / Risk MitigationStrengths:

1. The property is one of the first developments of its kind on the Pacific coast side of Cabo and offers breath-taking views of the ocean, sunsets and a system of sand dunes that are unique to the Pacific side of Baja.
2. Cabo San Lucas is the fastest growing tourist destination in Mexico.
3. Access to Los Cabos via air traffic has increased dramatically over the past several years (78% increase in commercial and 153% increase in charter flights from 2001 to 2006. Direct flights are now available from key east coast hubs such as JFK, Chicago and Atlanta, and the number of airlines carriers offering flights from the west coast have grown dramatically the past 12 to 24 months.
4. This growth has expanded market demand from the area's historical marketplace as a limited stay tourist resort area to encompass second homebuyers looking for luxury and exclusive product.
5. Similar master-planned communities with high-end product and amenities such as Chileno Bay, El Dorado, Palmilla and Querencia have seen a relatively high velocity of absorption and annual appreciation in excess 15% during the last few years.
6. There are only 7 golf courses in the Cabo area, and 5 are public courses. There is a high demand for additional high-end golf products in the Los Cabos area.
7. Golf is one of the key sporting activities in Los Cabos. The Love golf course will afford a unique experience as it is designed as a difficult links course incorporating the dunes and site topography. This is expected to generate high demand among serious golf aficionados.
8. The borrower has an experienced development team running the project; this core competency appears to have helped them establish strong relationships with City planning officials.
9. The borrower has extensive relationships within the professional sports and entertainment industries, and is leveraging these into projects marketing plan.

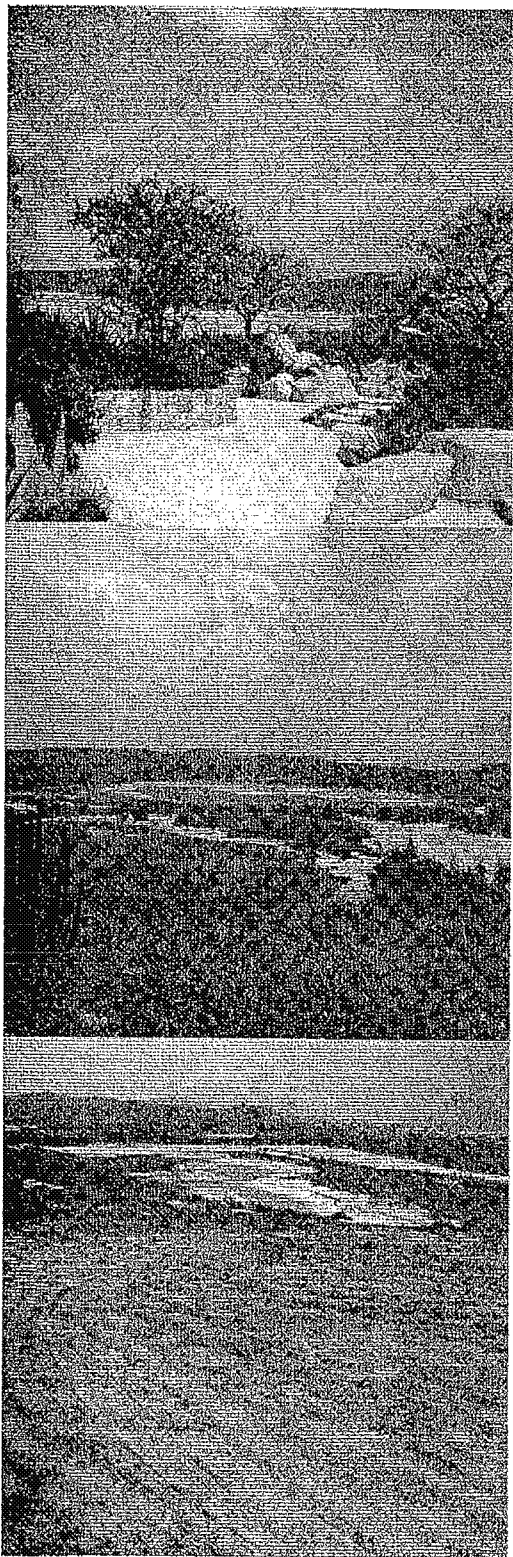
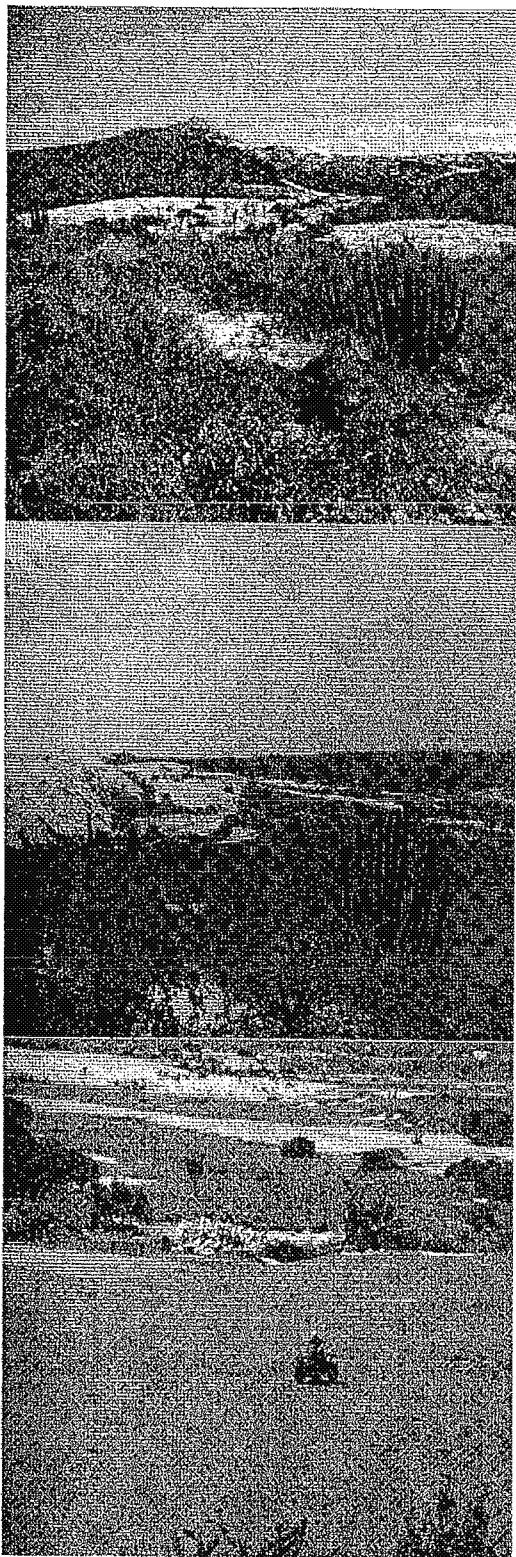
Risks:

1. The borrower purposely held off processing requests for development approvals for the dunes area in order to avoid delays in getting their base master plan approved. The sand dunes are areas of public preservation concerns, so the eventual design and number of units that will be permitted in the future development areas along the dunes is presently uncertain. However, the City has recently approved development on the dunes area for the neighboring project- San Cristobal
2. The project is somewhat pioneering in that it is located outside of the traditional tourist corridor between San Jose del Cabo and Cabo San Lucas. Resort development along the Pacific side of Baja is in its infancy, so market demand for a luxury community such as the subject has not yet been demonstrated. It should be noted however that there are several other projects located on the Pacific side which are currently in planning and development, and land availability on the Sea of Cortez is extremely limited, as such this project is in the path of future development.
3. The City does not have all public utilities extended to the site, and timing of the City's installation plans versus the borrowers need may not align. The borrower has formed an organization comprised of 4 other neighboring landowners to combine resources and work together to address these infrastructure issues with the City.
4. There are a number of high-end resort developments that are under development or in the planning stages. The capacity of the market to absorb all of these planned units is uncertain over the short term.

Deal Strategy and Significant Changes

Original: Upon acquisition, the business plan was to finalize the master plan, complete design and construction drawings and budget, and continue to submit and obtain necessary permits.

Current: Construction of the golf course was delayed until 2/07 and final completion was expected by 11/08 prior to stopping of work, approximately 12 months behind schedule. Lehman has pledged the loan to Danske and TriMont understands that the borrower has approached Danske directly with work-out proposals, but the specifics are not yet known. The project has been put on hold pending resolution of funding. Staff has been cut and construction has been suspended. TriMont understands that the borrower had been continuing maintenance operations on the golf course to preserve the significant investment in this element of the project. TriMont is modeling a hold scenario where minor development costs continue, which will add value to the project during this down market.



Status Report Disclosure

This report is the professional judgment of TriMont Real Estate Advisors, Inc. in the capacity of consultant, based upon statements, information and data provided by other parties. We assume that all information and data provided to us, is true and correct but cannot guarantee and have not independently verified all information and data on which this report is based.

The conclusions presented are based upon conditions and information available during the time period that the analysis was performed. Any estimates of future rents, expenses, net operating income, mortgage debt service, capital outlays, cash flows, inflation, capitalization rates, yield rate or interest rates are intended solely for analytical purposes and are not to be construed as predictions of the future by TriMont Real Estate Advisors, Inc.